Monthly Economic Brief

Office of the Chief Economic Adviser

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Riaghaltas na h-Alba
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Overview

This edition of the Monthly Economic Brief provides an update on the Scottish economy into the final quarter of 2020, reflecting on a period in which there has been some recovery from the pandemic's initial economic shock, but in which further regional restrictions on economic activity continue to shape the pace of recovery and the outlook for the start of the new year.

The Scottish economy grew for the sixth consecutive month in October, having shrank by almost a quarter in March and April during the national lockdown. Over this period, output has recovered back to 5.7% below its pre-lockdown level in February, demonstrating that progress has been made. However, the pace of recovery has slowed significantly from the summer months as underlying demand in the economy remains subdued and regional restrictions to counter a second wave of the pandemic have been introduced.

This slowdown in growth has been evident across sectors, but particularly most recently in the services sector as restrictions on consumer facing elements such as the hospitality industry have presented particular challenges, while the high street retail sector has faced ongoing subdued demand in what would otherwise be their busiest trading period of the year.

Reflecting these challenges across the UK as a whole, the Office for Budget Responsibility forecast UK GDP to contract by 2.7% in the fourth quarter of 2020, highlighting that the economic recovery back to pre-pandemic levels has some way to go. However, such forecasts also predate the most recent restrictions and tightening across the UK.

The economic outlook for the start of the new year is set to be particularly challenging and uncertain. To counter the new strain of coronavirus, mainland Scotland will enter into level four restrictions for a three week period on the 26th December resulting in the closure of tourism, hospitality and non-essential retail. The combination of this alongside the restrictions in place across the UK and internationally will have significant economic impacts. Also, at the time of writing, there is still no confirmation what the UKs trading relationship with the EU will be when the transition period ends on 31 December, presenting further uncertainty for businesses and supply chains.

Looking further ahead, the availability of a successful vaccine and the beginning of the vaccination programme creates more optimism for the medium term economic outlook. Updated scenario analysis presented in this report sets out that Scotland's GDP could recover to pre-pandemic levels in 2023 if restrictions are gradually relaxed over the first half of 2021 and a vaccine or other measures limit the spread of the virus. However, as recent developments highlight, there remains significant risk, both upside and downside, around this scenario and the speed of any economic recovery.

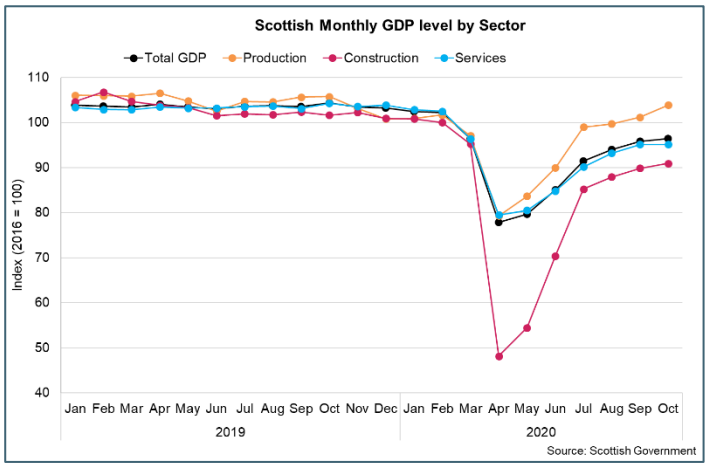
Supporting businesses and jobs through the coming year will remain critical to keeping businesses viable and supporting incomes while restrictions continue to constrain activity and capacity through this challenging period. Unemployment in Scotland currently remains at low levels (118,000), however the furlough scheme supported over 195,000 jobs at the end of October, with indications that this has increased further in November and December. This remains a crucial and key lever of support for business and workers, and the extension by one month will help through this difficult period.

Finally, 2020 has been unprecedented in both the scale of economic impacts and also the policy response in supporting the economy. As we move into 2021, we will need to continue to respond to changing circumstances and remain resilient as we move toward a fuller recovery.

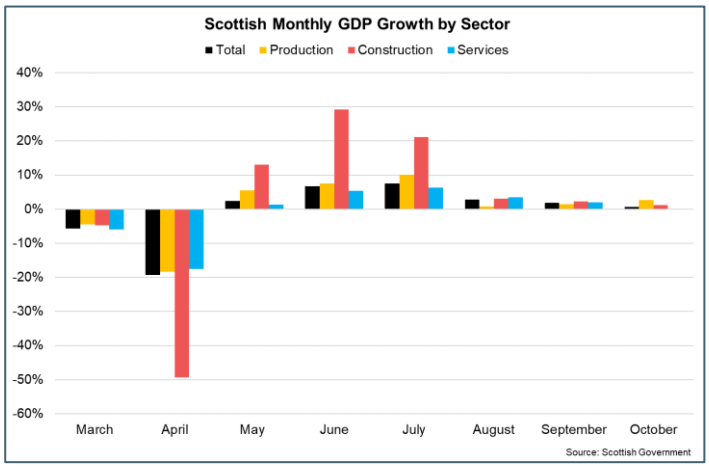
Output[1]

Scotland's GDP data for October showed that output continued to recover from the record fall in April, however, the pace of recovery further slowed from June and July.

- Scotland's GDP grew 0.6% in October (UK: 0.4%), its sixth consecutive month of growth, after the sharp falls of 19.3% in April and 5.6% in March.



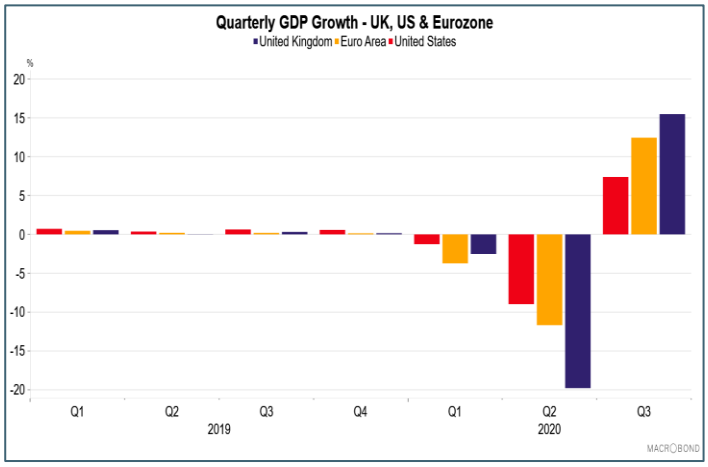
- Growth over this period reflects that output has been recovering as business and consumer activity strengthened with the easing of the national lockdown restrictions during the summer months.
- However, as in the UK as a whole, the pace of recovery has slowed significantly from the initial rebound in growth in June (6.6%) and July (7.6%) with ongoing weakness in underlying demand (domestic and international) and the introduction of regional restrictions on activity in October.



- This is notable at a sector level. In October, there was growth in the Construction (1.2%) and Production (2.7%) sectors, however, there was zero growth overall in the Services sector. While output in most services subsectors did increase, this was offset by a fall of 15.9% in accommodation and food services as regional restrictions on hospitality activity were introduced for several weeks across the central belt NHS Board areas.
- Overall, GDP in Scotland remains 5.7% below its level in February (UK: 7.9%), prior to the full direct impacts of the pandemic on the economy. However the recovery in output varies significantly by sector. In the Production sector output has recovered to 2.2% above its level in February, while Construction output remains 9.1% below and Services 7.2% below. Within the Services sector, there remains significant variation across industries with consumer facing industries such as Accommodation and Food Services (-43.5%) and Arts, Culture and Recreation (-26.7%) experiencing the slowest recoveries amidst ongoing restrictions.

[1] Scotland: https://www.gov.scot/collections/economy-statistics/; UK: https://www.ons.gov.uk/economy/grossdomesticproductgdp; Eurozone: https://ec.europa.eu/eurostat/publications/news-releases; US: https://www.bea.gov/data/gdp/gross-domestic-product

- The overall path of Scottish GDP during the pandemic has broadly been in line with the UK as a whole, though the impacts of the pandemic internationally have varied, reflecting the scale and duration of restrictions across countries.
- In Q3 2020, US GDP grew 7.4% (following a 9.0% fall in Q2) and Eurozone GDP grew 12.5% (following a 11.7% fall in Q2).



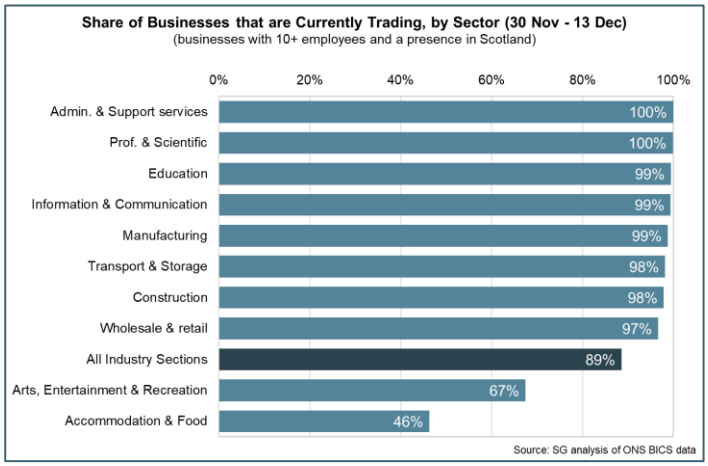
Business Activity

Following a period of stabilisation in the third quarter, business activity has weakened into the fourth quarter, particularly in consumer facing parts of the services sector.

Proportion of business trading[2]

- The easing of national lockdown restrictions during the second and third quarters of the year enabled many businesses to gradually reopen, and by the start of October, the proportion of business reporting as currently trading had risen to 97%, up from 79% in June.

- However, this proportion has fallen back over October and November as regional restrictions have been introduced and latest data into the first half of December showed that the proportion of businesses currently trading had fallen to 89%, its lowest rate since the second half of July.

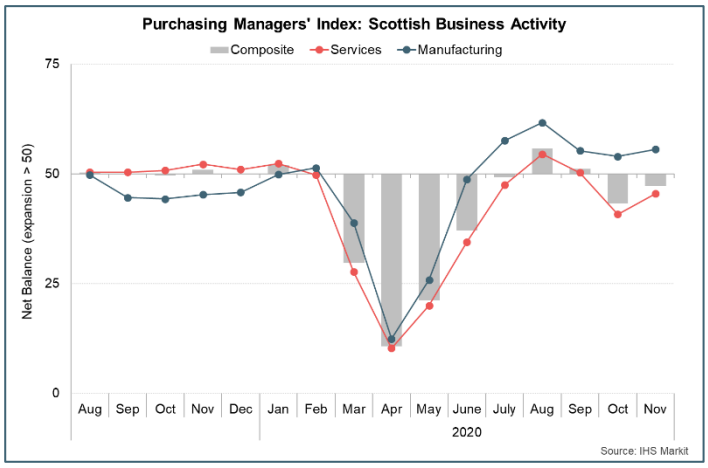


- The Accommodation and Food Services sector (46%) and the Arts, Entertainment & Recreation sector (67%) continue to have the lowest proportions of businesses trading in December and have both decreased sharply from November.

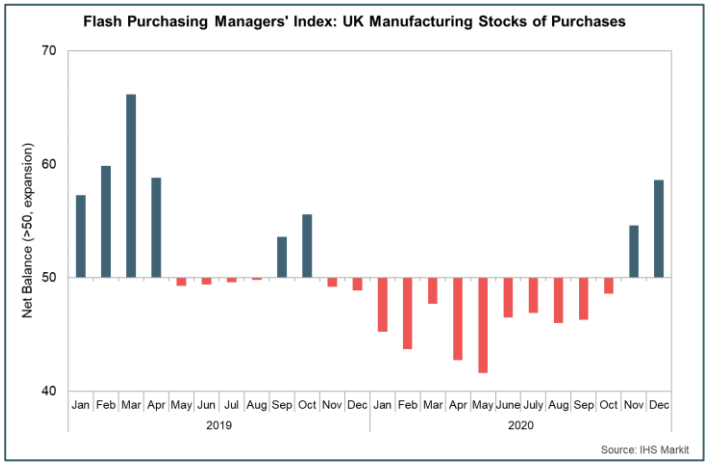
[2] BICS weighted Scotland estimates: data to wave 19. https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus(covid-19)survey(bics)

Business output

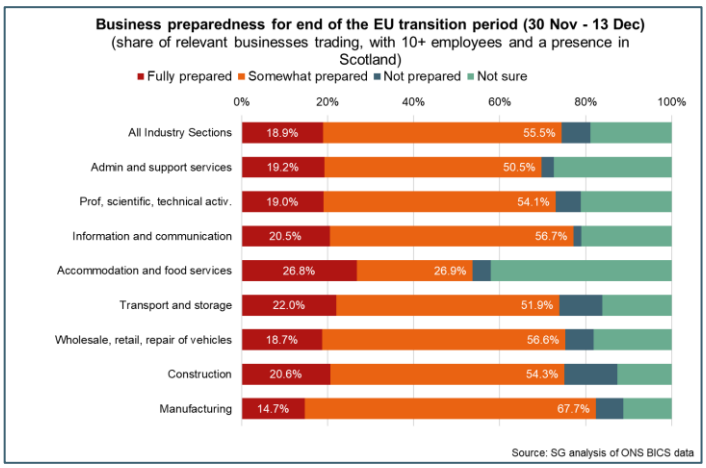
- The RBS Purchasing Managers Index (PMI)[3] business survey reported that business activity in Scotland stabilised following its low point in April during national lockdown and returned to growth in the third quarter of the year across both the manufacturing and service sectors.
- However with the pace of growth slowing in September, business activity contracted across October and, to a lesser extent, November (47.3, up from 43.2) reflecting falls in new orders.
- At a sector level, there has been some divergence of activity in the fourth quarter. Manufacturing activity has continued to grow relatively robustly in November (55.6) while Service sector activity contracted (45.5) though less sharply than in October.



- The fall in business activity in November was linked to the latest restrictions introduced in October and November. However, looking to the year ahead, business expectations remained positive and confidence rose to a 3-month high.
- The more recent UK Flash PMI for December[4] signalled a return to business output growth following a fall in November. While Service sector activity remained largely unchanged over the month, growth was supported by a pickup in Manufacturing new orders and as firms brought forward some purchases ahead of the end of the EU transition phase.



- This suggests that some firms are preparing for the end of the EU transition phase. In Scotland, latest BIC survey evidence suggests that, of businesses where preparedness for the end of the EU transition period is relevant, almost 19% were fully



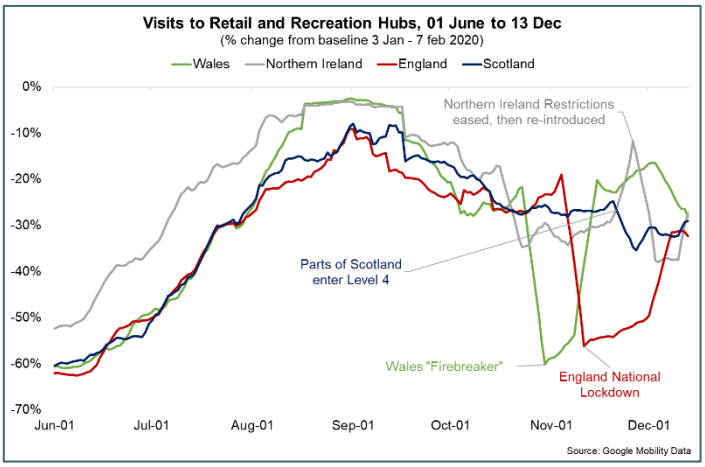
[3] IHS Markit, RBS Purchasing Managers Index, November 2020.
https://www.markiteconomics.com/Public/Home/PressRelease/456d089425a1422db9862e8d47bdcc50
[4] IHS Markit/CIPS Flash UK Composite PMI, December 2020.
https://www.markiteconomics.com/Public/Home/PressRelease/4bcc14f3db3845a7a5ab9aca65cedd4d

prepared for the end of the period, while a further 55% were somewhat prepared. However 7% were not prepared at all.

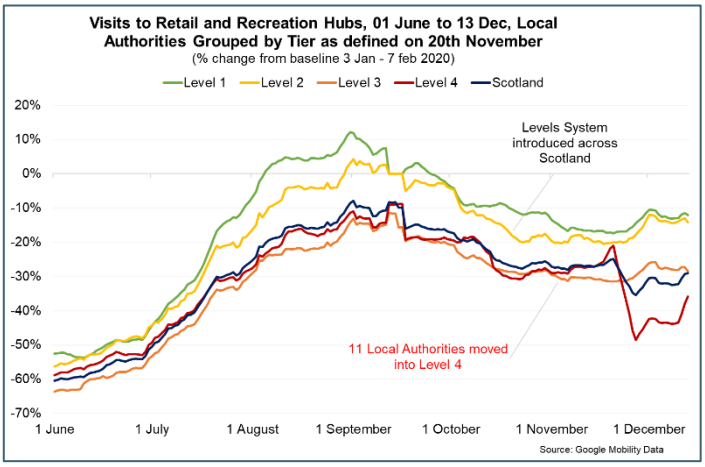
Monitoring the impact of restrictions

Following the end of the national lockdown earlier in the summer, there has been a reintroduction of local restrictions across the UK as areas have seen resurgences in Covid-19 cases. This has led to greater regional variation across the four nations in the level of restrictions that have been applied. The Scottish Government's approach is to suppress the virus to a very low level while seeking to minimise the broader health, social and economic harms. The regional levels-based approach in Scotland has offered the opportunity to ensure that measures are applied in proportion to the threat posed by levels of infection in each area.

One indicator that can be used to help monitor the impact of restrictions is to look at mobility.[5] The adjacent chart shows how visits to retail and recreation hubs have been affected by restrictions.[6] For example, it is clear to see the impact of national restrictions such as the beginning and end of Wales' "firebreaker" or the national lockdown in England. It is also possible to see an impact on the Scottish data following the introduction of Level 4 restrictions over 11 Local Authorities on 20 November although the data suggests that the overall impact in Scotland was less severe than the national lockdowns seen in Wales and England.



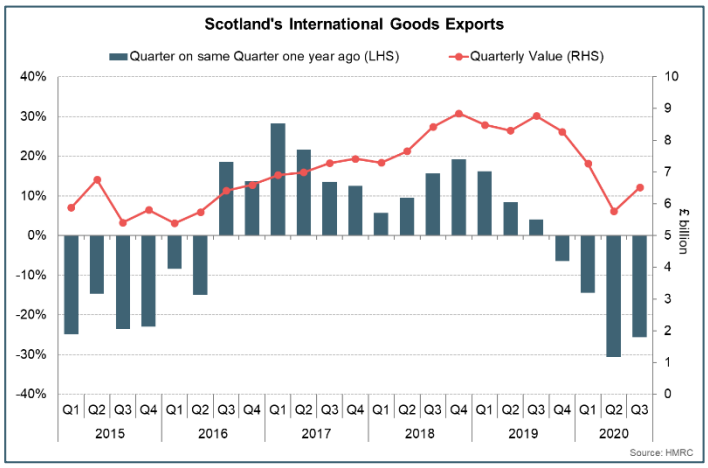
Within Scotland, there has also been significant variation in visits to retail and recreation in different local authorities conditional on the level they were placed in. The adjacent chart compares the visits to retail and recreation by local authority (with local authorities allocated to their respective level as of 20 November). This shows that since the regional levels-based approach was first introduced on 2 November, visits to retail and entertainment hubs have declined across all levels to a degree. The greatest divergence occurred with the introduction of Level 4 restrictions on 20 November on 11 Local Authorities covering around 40% of the population and which entailed the closure of non-essential retail and hospitality. Consequently, the mobility data is a useful data source to monitor the impact on economic activity of the virus and the measures necessary to suppress it.



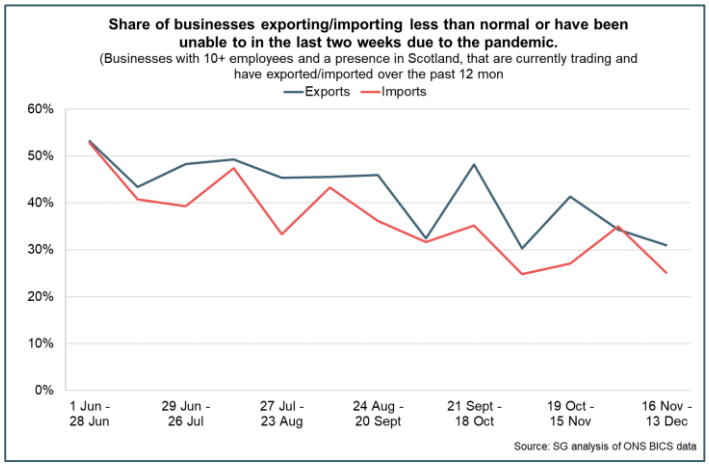
[5] This data draws on publicly available Google Mobility Data, more details of which can be found here. The graphs are calculated as 7 day rolling average figures. The raw data is presented at a Local Authority Level. When categorising by Nation / Level, a Local Authority Population weighted average is used to aggregate the results. Due to population sizes, some local Authorities, particularly rural ones, do not always have data available. When this happens groupings are re-weighted by population. This can make some groupings that have smaller numbers of local authorities appear to be more volatile.

[6] Retail and Recreation covers visits to restaurants, cafes, shopping centres, theme parks, museums, libraries, movie theatres and similar locations.

Trade



- On the back of significant global trade headwinds in 2019, many businesses have faced further challenges to trade in 2020 due to the pandemic and restrictions impacting demand and supply chains across countries.
- In Q3 2020, the value of Scotland's international goods exports was £6.5 billion, down 26% compared to Q3 2019. The fall in exports over the year was driven partly by a fall in oil & gas exports (-60%) and a fall in beverages exports (-16%).[7]



- BICS weighted Scotland estimates[8] suggests that the pandemic is continuing to have a significant impact on businesses trade into the start of December, though the data suggests that the impact has been gradually softening.
- At the start of December, 57% of respondents reported that their exports had not been affected (62% for imports), however 31% were exporting less than normal or had been unable to (25.1% for imports).

Business Turnover

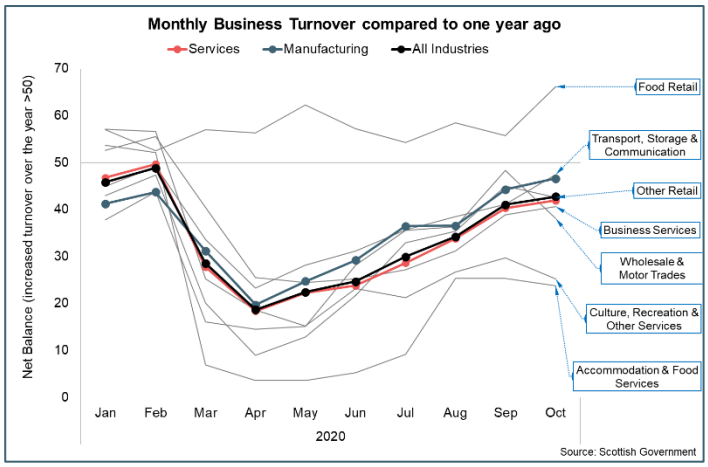
Going into the fourth quarter, many businesses continued to operate below full capacity with risks to business viability varying across sectors.

Monthly Business Turnover Index[9]

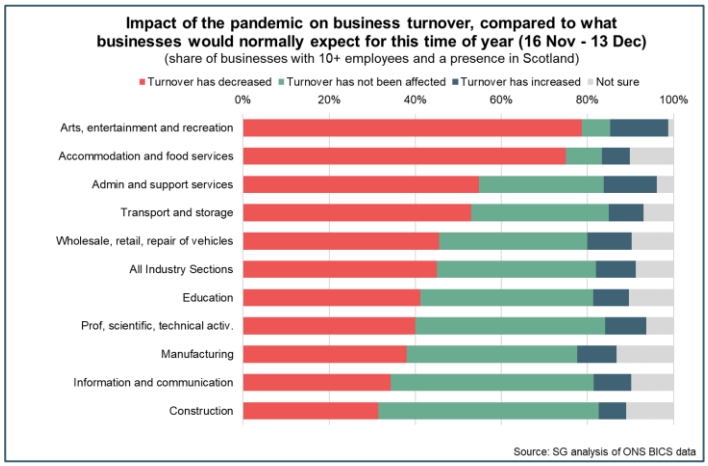
- The Monthly Business Turnover Index for October showed that most companies in Scotland continued to report that turnover had fallen compared to last year (43). However, the index had risen for six consecutive months indicating business activity is recovering.

[7] https://www.gov.uk/government/collections/uk-overseas-trade-statistics-and-regional-trade-statistics#current-releases
[8] BICS weighted Scotland estimates: data to wave 19. https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus(covid-19)survey(bics)
[9] https://www.gov.scot/collections/economy-statistics/#monthlybusinessturnoverindex. The Index is between 0 and 100. Readings above 50 indicate an increase compared to the previous year, and below 50 a decrease.

- Compared to last year, business turnover remains lower across both the Manufacturing sector (46.6) and to an even greater extent, the Services sector (41.9), despite both continuing to strengthen over the month.



- Within the Services sector, Accommodation and Food Services continued to be the industry with most businesses reporting a decrease in turnover over the year, followed by Culture and Recreation Services. Furthermore, turnover in both industries weakened over the month.
- Similar to other business activity indicators, the pace of recovery in the turnover index has slowed from the summer months, particularly in the consumer facing service sectors, reflecting the introduction of local level restrictions to counter the increase in coronavirus cases.
- The extent to which business turnover remains below last year continues to emphasise the weak demand and operational challenges that businesses are facing.



- Scottish Government estimates of ONS BICS data show further challenging trading conditions in November and into December, with 45% of the businesses with a Scottish presence reporting that turnover was lower than what they would normally expect for the time of year. While this has fallen from 56% in the first half of November, the extent of the issue continues to vary notably by sector with four sectors in which more than half of businesses continue to experience lower turnover: Arts, Entertainment & Recreation (79%); Accommodation & Food Services (75%), both of which continued to be impacted significantly by restrictions on consumer activity, and also Administration & Support services (55%) and Transport & Storage (53%).[10]
- Furthermore, business resilience remains a key factor going forward, with restrictions on activity expected to continue in some form into the new year. The same survey showed that in the first half of December, 28% of firms reported having no, or less than 3-months' of cash reserves

[10] BICS weighted Scotland estimates: data to wave 19. https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus(covid-19)survey(bics)

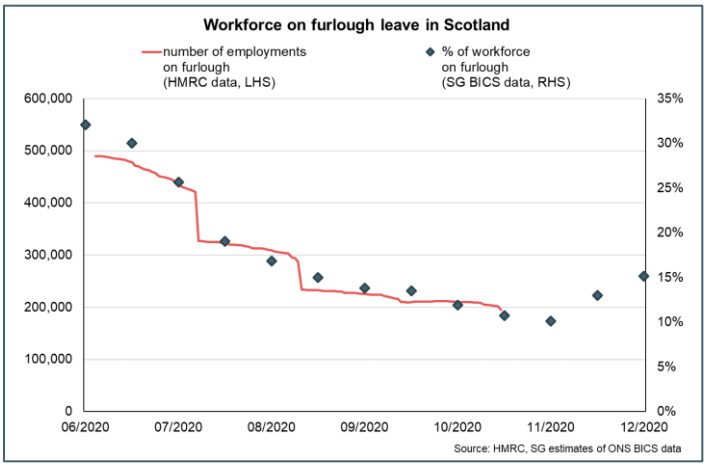
(34% had more than 6-months), while 15.3% reported a moderate risk of insolvency (74.1% reported being at low or no risk).

Labour Market

Unemployment remained low by historical standards in October, supported by the Job Retention Scheme, however wider labour market indicators signal challenging labour market conditions.

Coronavirus Jobs Retention Scheme (CJRS) and Self Employment Income Support Scheme[11]

- The CJRS has been supporting the retention of jobs and incomes since March, during the national lockdown phase, as restrictions were relaxed in the third quarter, and has been extended to the end of April 2021 in the expectation that restrictions on economic activity will continue into next year.
- At the end of October, 195,200 employments (8%) in Scotland were on furlough. This is down from 421,200 (17%) at the end of July and from 216,500 (9%) at the end of September, reflecting the restarting of many business and subsequent return to work for people over this period. Furthermore, at the end of October, 56% of employments were on full furlough, with 44% on partial furlough, reflecting the flexibility on staffing levels that businesses needed as they resumed operations, though with many operating below capacity and with ongoing cashflow challenges.

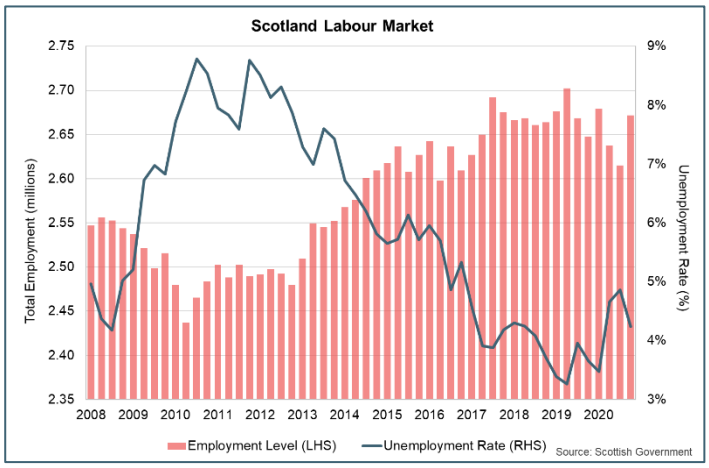


- More recent Scottish Government ONS BICS data for the start of December continues to show both the breadth of support that the scheme provides across the economy and its rising take-up as regional restrictions have been introduced. At the start of December, an estimated 51% of businesses in Scotland had staff on furlough (up from 49% in October/November), supporting 15% of the workforce (up from 10% in October/November).[12]
- The Self Employed Income Support Scheme (SEISS) has also continued to provide critical support to the labour market. HMRC data show that by end of October, 142,000 claims in Scotland had been made to the second SEISS which opened on 17 August. This represents 67% of the eligible population, with an average claim of £2,500. By that point, 161,000

[11] https://www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics
[12] BICS weighted Scotland estimates: data to wave 19 https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus(covid-19)survey(bics)

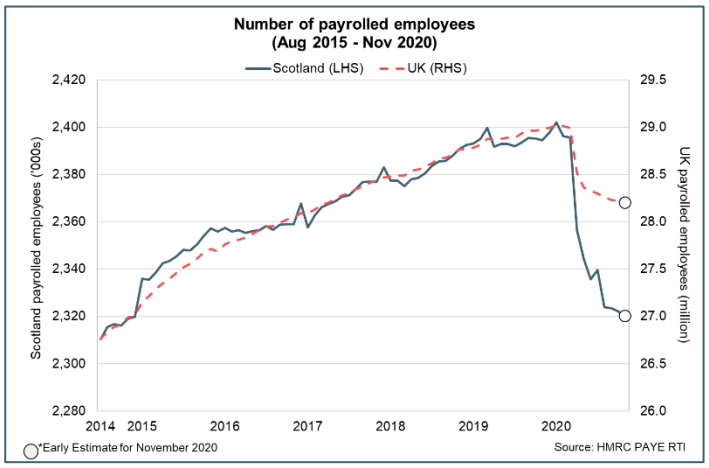
individuals had claimed for either the first or second SEISS, with 86% of those claiming both grants.

Official labour market statistics



- The latest labour market statistics cover the period August to October when national lockdown restrictions were eased, but regional restrictions started to be introduced in October and businesses continued to receive support through the CJRS and SEISS.
- Over the quarter to August to October 2020,[13] the employment level increased by 57,000 in Scotland and the employment rate increased by 1.4 percentage points to 74.8% (UK: 75.2%). The unemployment level fell by 15,000 over the quarter and the unemployment rate fell 0.6 percentage points to 4.2% (UK: 4.9%).
- The improvement in employment over the quarter is partly reflected in a decrease in economic inactivity (those neither in employment or ILO unemployed), with the level falling by 33,000 and the inactivity rate decreasing by 0.9 percentage points to 21.8% (UK: 20.8%).
- The headline labour market indicators only show a partial picture of the labour market as people on furlough are considered employed. Wider labour market indicators show challenges that have been emerging in the labour market during the pandemic.

PAYE payrolled employment



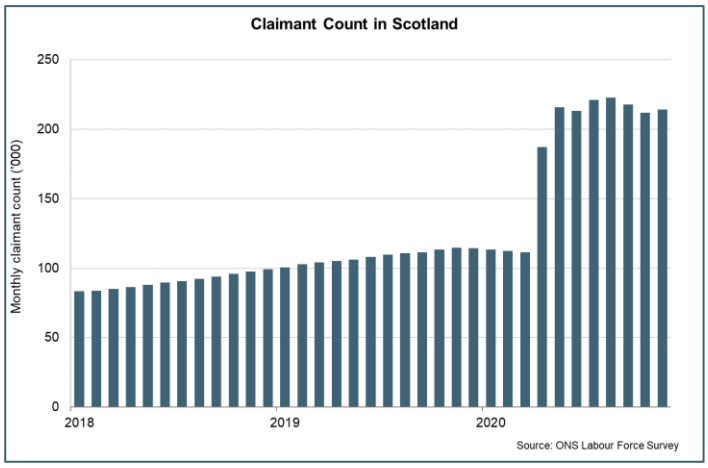
- The more timely Pay As You Earn (PAYE) Real Time Information data show that the number of payrolled employees in Scotland and the UK as a whole has fallen sharply in 2020.
- In November, the number of payrolled employees fell 3.1% (74,000) over the year (UK: -2.7%) to 2.32 million, with most of the

[13] https://www.gov.scot/collections/labour-market-statistics/

fall occurring since March as the pandemic and economic restrictions started to impact the economy directly.[14]

Claimant Count

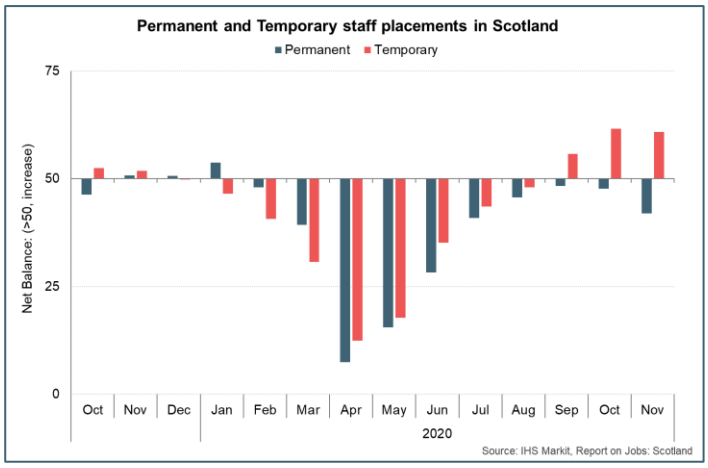
- Scotland's Claimant Count (the number of claimants of Job Seekers Allowance and claimants of Universal Credit claiming principally for the reason of being unemployed) remains significantly higher in November than at the start of the year, signalling that the number of people that are unemployed or employed with low income and/or low hours has increased.[15]

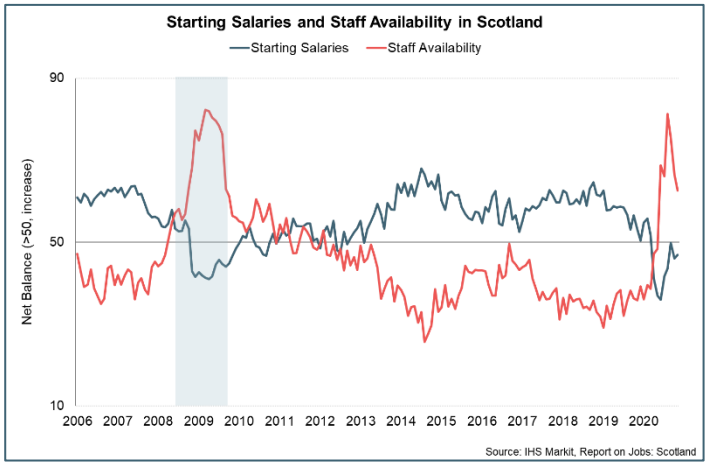


- In November, there were 214,200 claimants, up 1.1% over the month and up 92% since March.

Demand for staff in Scotland

- The IHS Markit RBS Report on Jobs survey for November showed a mixed picture for recruitment activity with a sharp fall in permanent job placements and a further increase in temporary placements.[16]
- Permanent job placements fell for a third consecutive month in November and at their sharpest rate since July. In contrast, temporary job placements increased for the third month, likely reflecting businesses choosing to suspend permanent hires in favour of more flexible recruitment through temporary staff amid the current restrictions.
- While hiring activity remained subdued, staff availability (labour supply) continued to increase in November, though at its slowest pace since May, with respondents continuing





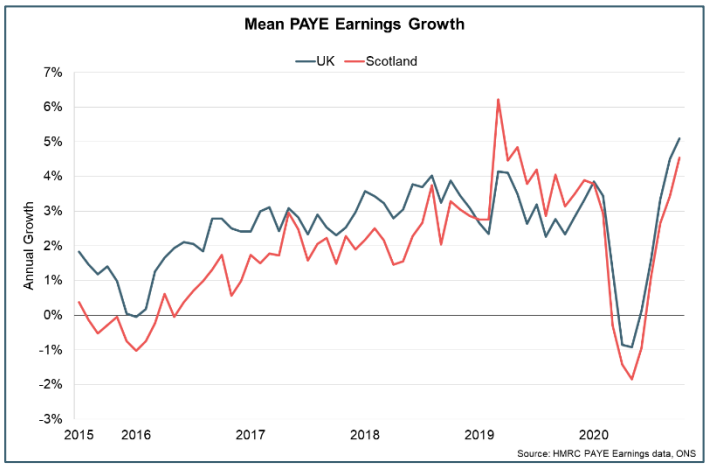
14 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimeinformationuk/december2020

15 https://www.gov.scot/collections/labour-market-statistics/

16 https://www.markiteconomics.com/Public/Home/PressRelease/12e0f54d2aa549ca95d8b7367c1fd2e8

to link the increase in staff availability to job losses and redundancies. Alongside this, starting salaries in Scotland declined in November for both permanent and temporary staff, however the overall pace of decline slowed from October.

Earnings

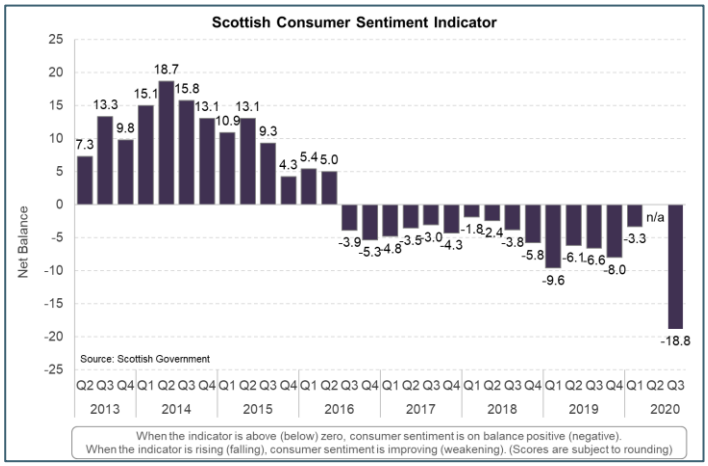


- More broadly on earnings, despite the protection offered to the labour market through the furlough scheme, earnings fell at the beginning of the pandemic. Between March and June, PAYE mean monthly pay fell for four consecutive months compared to the previous year. It returned to growth in July, and having strengthened for four months, in October, PAYE mean monthly pay in Scotland was £2,438, up 4.5% compared to October 2019. (UK: 5.1%).[17]
- While the mean annual earnings growth rate has rebounded sharply in 2020, the picture is complex and there are likely to be compositional effects (e.g. by sector and across income levels) underlying the data which would suggest that not all parts of the labour market will have experienced the same rebound as the mean rate implies.

Consumption

Consumer sentiment and consumption activity have been significantly impacted in 2020 by the coronavirus pandemic and restrictions on activity impacting both supply and demand.

Consumer sentiment



- In Q3 2020, the Scottish Consumer Sentiment Indicator stood at -18.8, indicating that consumer sentiment was on balance negative and at its lowest point in the quarterly time series.[18]
- The low level of consumer sentiment in Q3 was driven by sentiment regarding the current performance of the economy, current

[17] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimeinformationuk/december2020

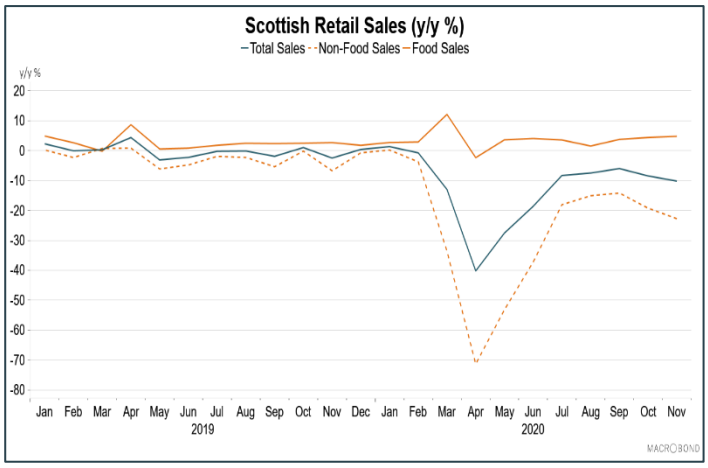
[18] https://www.gov.scot/collections/economy-statistics/#scottishconsumersentimentindicator(scsi) Due to the coronavirus pandemic, data was not collected in the last two weeks of March and in April and May. Therefore there are no results for Q2 2020 as a whole and in Q1 2020 results are based on 2,129 adults instead of 2,250.

security of household finances and current relaxedness about spending being at their lowest levels in the time series, and is reflective of the unprecedented scale of the economic shock during the pandemic.

- Looking ahead to the next 12 months, respondents expectations about the economy and their household finances have been less negatively impacted, and on balance expect them to be performing better in a year's time than now.
- More recent GfK UK consumer sentiment data[19] for December showed that while overall sentiment remained subdued, households expectations for the economy and their personal financial situation over the coming year strengthened notably over the month as the UK approved use of a vaccine.
- However, there is significant uncertainty for the economic outlook, household expectations, and how they feed through to consumer behaviour. Sentiment indicators will likely continue to be highly sensitive to the rapidly moving developments on the pandemic and the introduction of new restrictions that are required to contain it.

Retail sales

- The Scottish Retail Sales Monitor for November[20] showed that the recovery in retail sales weakened in November, as the move of 11 Local Authorities to Level 4 restrictions for 3-weeks resulted in the closure of non-essential retail.

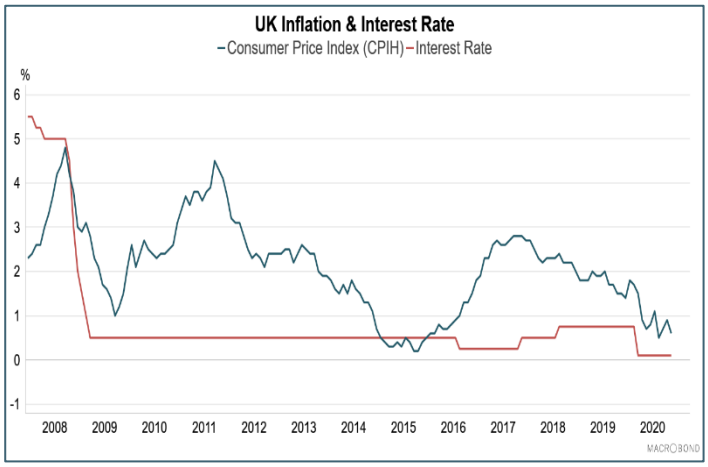


- The value of total retail sales fell 10.2% over the year to November, its sharpest annual fall since June. While food sales increased by 4.7% (strengthening from 4.4% annual growth in October), non-food retail sales fell 22.8% (down from a 19% fall in October).
- The combination of the closure of non-essential retail across 11 Local Authorities in November, alongside pressure on incomes, subdued sentiment and heightened uncertainty are factors continuing to impact on consumer activity.

[19] https://www.gfk.com/press
[20] Source: SRC/KPMG Scottish Retail Sales Monitor: https://brc.org.uk/retail-insight/content/retail-sales/scottish-retail-sales-monitor/reports/202011_scottish_rsm/

Interest rate and inflation

- The fall in demand during national lockdown, alongside the fall in oil price to record lows placed downward pressure on inflation in the first half of 2020 and which has continued into the third and fourth quarters of the year.

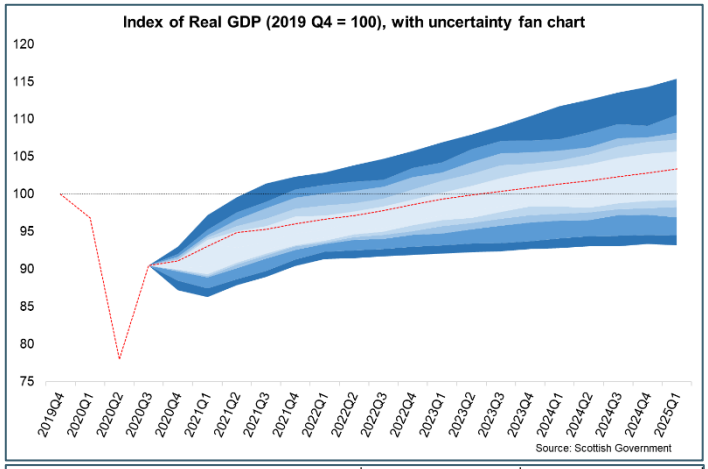


- The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate fell to 0.6% in November, down from 0.9% in October.[21]
- There were upward contributions to the inflation rate from goods, toys and hobbies categories, however this was more than offset by falling prices for clothing, food and non-alcoholic beverages.
- The Bank of England maintained the Bank Rate at 0.1% in December 2020[22] and in their current central scenario analysis project inflation to fall to 0.5% in 2020 before rising to 2% in 2021.

Updated Medium Term Economic Outlook

Although the availability of a vaccine and the beginning of the roll out of a vaccination programme creates more optimism for the medium term economic outlook, significant uncertainties still remain and the speed of any economic recovery has a number of headwinds to overcome.

First, until the vaccination programme has reached a significant proportion of the population, restrictions will remain the primary tool with which to suppress the virus. During a significant part of quarter 4 2020, both across the UK and internationally, more stringent restrictions have been in place to tackle a second wave of infections. These restrictions are likely to continue in some form into quarter 1 of 2021.



	2020	2021
Annual GDP Growth (%)	-10.8%	6.4%

Second, the transition period with the EU will come to an end on 31 December. At the time of writing there is still no confirmation whether the UK will agree a new trade agreement with the EU, or will move to trading on World Trade Organisation terms.

Conditional on these uncertainties, the first chart outlines the latest central scenario analysis on the medium term outlook for the Scottish economy. The central outlook reflects an outcome where it takes time for the economy to

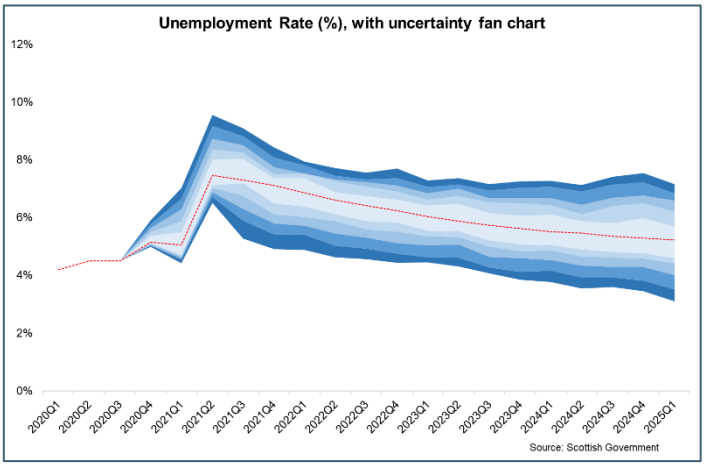
[21] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/november2020
[22] https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2020/december-2020

recover from the unprecedented size of the economic shock. As a result GDP may not recover to pre-crisis levels until 2023. We assume that restrictions are gradually relaxed over the first half of 2021, as a vaccine or other measures limit the spread of the virus.

There remain significant uncertainties around the central scenario. On the upside, a much quicker roll out of a vaccination programme could allow most, if not all, restrictions to be lifted quicker as well as help minimise the degree of permanent economic damage. This could see the economy return to pre-crisis levels earlier than in 2023.

However, there remain also a number of downside risks. First, leaving the EU without a trade deal is expected to result in a short-term fall in GDP, depending on the level of disruption that occurs at the UK-EU border. Secondly, a slow or ineffective vaccination programme could lead to the persistence of restrictions in some form for a longer period of time in 2021.

The second chart also shows the central outlook on unemployment accompanied by an uncertainty fan chart. In the short term, the furlough scheme, which has been extended for an additional month until the end of April 2021, continues to limit the increase in headline unemployment. Consequently, unemployment is now not expected to begin to rise until Q2 2021.



	2021		
	Q1	Q2	Q3
Unemployment Rate (%)	5.1%	7.5%	7.3%

As with GDP, there remains a significant amount of uncertainty over the medium term outlook for the labour market. Our central scenario still assumes that the labour market will take a relatively long period to recover from the economic shock, in line with historical labour market evidence from other recessions.

However, the role of the furlough scheme in sustaining pre-pandemic jobs mean that the recovery could be much quicker, with people returning quickly to their previous employments, or potentially slower, if it delays people finding new positions.

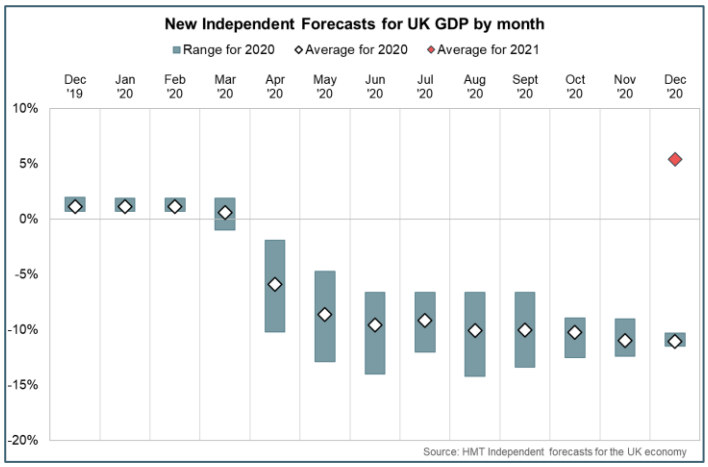
Overall, in the central scenario Scotland's GDP falls 10.8% in 2020 before growing 6.4% in 2021 and gradually returns to pre-pandemic levels in 2023, while unemployment rises to 7.5% in Q2 2021 before gradually easing back.

GDP growth outlook

The economic outlook remains extremely challenging, with increased restrictions planned for the start of 2021, coinciding with the end of the EU transition period, while the roll out of a vaccine provides the potential to offset some of the downside risks.

- The economic outlook for the global and domestic economy remains extremely uncertain. The pace at which developments around the pandemic continue to evolve are strongly influencing both the short term outlook and longer term scenarios.

- In the short run, latest business surveys have signalled that business activity has slowed and contracted in the final quarter of 2020 amid the introduction of regional restrictions. The Office for Budget Responsibility[23] project UK GDP to fall by 2.7% in Q4 2020.
- However the further tightening of restrictions in December and into the start of 2021 places further downside risks to economic activity for the remainder of 2020 and the first quarter of 2021. These elements are not captured in the latest UK scenarios. However the breadth of the restrictions across the UK as a whole, including in cities such as London, which has key economic links across the UK, is likely to have implications for growth across all sectors and regions.
- Further ahead, the roll out of the vaccination programme is a key element for the pace at which economies can grow in 2021 and recover back towards their pre-pandemic levels. Most forecasters implicitly assume that an effective vaccine will offset some of the downside risks and reduce high levels of economic uncertainty.
- At a global level, the OECD project world GDP to fall by 4.2% in 2020 before rebounding to 4.2% growth in 2021. However, there is significant variation expected across countries.[24]



- At a UK level, the latest average of new independent forecasts published by HM Treasury[25] suggests UK GDP will contract by 11.1% in 2020 before rebounding to 5.4% growth in 2021.
- The Office for Budget Responsibility central forecast suggests UK GDP will return to pre-pandemic levels by Q4 2022, however, if downside risks of further restrictions on activity and expectations for the vaccine don't materialise, GDP may not return to pre-pandemic levels until the end of 2024.
- In Scotland, this edition of the monthly brief set out a central scenario in which Scotland's GDP falls 10.8% in 2020 before growing 6.4% in 2021 and gradually returns to pre-pandemic levels in 2023. However, this assumes that restrictions are gradually relaxed over the first half of 2021, as a vaccine or other measures limit the spread of the virus. A much quicker roll out of a vaccination programme could enable GDP to return to pre-crisis levels before 2023 while a slow or ineffective vaccination programme could result in a slower recovery.

[23] https://obr.uk
[24] OECD Economic Outlook, December 2020 | Turning hope into reality
[25] https://www.gov.uk/government/collections/data-forecasts#2020

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